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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER DECEMBER 12,
2008 ISSUE

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¶1. (U) Summary. This is Volume 8, issue 50 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Manufacturing Outlook Bleak
- South African Economy Shows Resilience
- Customs Officials Seize 60 Tons of Illegally Imported Clothing
- Tourism Slumping
- SAA Safety Gets Thumbs Up From FAA
- Eskom Terminates Nuclear 1 Procurement Process, but South Africa Still Committed to Nuclear
- PetroSA Appoints KBR as Engineering Contractor for Proposed Coega Refinery
- SADC Launches New Science and Technology Desk

End Summary.

Manufacturing Outlook Bleak

¶2. (U) Manufacturing production declined by 1.6% year-on-year (y/y) in October. Stanlib Economist Kevin Lings said that the manufacturing sector is under enormous pressure, which would intensify in the quarters ahead. A drop-off in residential housing activity, a decline in consumer spending, and sluggish world demand are all likely to work against manufacturing activity over the next six to 12 months. Lings expects the weak exchange rate, the increased expense of manufactured imports, and the public sector infrastructure program to offset some of the domestic economic conditions, but these factors are unlikely to be sufficient to offset a general slump in manufacturing activity. Most analysts expect the manufacturing sector to slip into a technical recession in the fourth quarter of 2008. Efficient Group Economist Doret Els said the outlook for the manufacturing sector should be a trade-off between improved export potential (due to the weaker rand) and dampened demand. (I-Net Bridge, December 10, 2008)

South African Economy Shows Resilience

¶3. (U) The South African Reserve Bank's quarterly bulletin reports that the South African economy weathered stormy conditions in the third quarter of 2008. Despite the global financial turmoil in the third quarter and the consequent steep fall in equity and commodity prices, final domestic demand grew by 3.1% quarter-on-quarter (q/q) from 1.4% q/q in the second quarter. This growth was despite the first contraction in household consumption expenditure since the fourth quarter of 1998, as both fixed capital formation and government consumption expenditure increased in the third quarter relative to the second quarter. This resilience was not confined to the domestic sector, as exports grew by 3.2% q/q in the third quarter despite the slowing in global demand. The balance of payments surplus grew from R5.7 billion (\$570 billion) in the second quarter to R7.8 billion (\$768 million) in the third quarter. Overall, the economy grew by 4.3% year-on-year in the first nine months if measured from the expenditure side. The growth is well ahead of the government's forecast of 3.7% growth for the full year and the consensus forecast of 3.2% of private sector economists. (Beeld, December 11, 2008)

Customs Officials Seize 60 Tons of
Illegally Imported Clothing

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¶4. (U) South African Revenue Service (SARS) officials seized 60 tons of clothing that were illegally imported from China and shipped to South Africa through Botswana. SARS spokesman Adrian Lackay said the goods were to be sent to three large retailers, but he would not disclose the value of the seized goods or the names of the retailers. The retailers were not implicated in the fraud, but, Lackay noted, "This is a worrying trend. Some retailers, in their pursuit of the cheapest goods, are not vetting their suppliers properly, otherwise they would pick up the anomaly in the value and

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price of goods." The seizure comes just after the Department of Trade and Industry (DTI) expressed concern over "massive and systemic" fraud involving clothing imports from China. SARS reports that while textiles and apparel worth R15.3 billion (\$1.4 billion) were exported from China to South Africa in 2007, invoices reflected imports worth only R6.1 billion (\$597 million), a shortfall of 60%. SARS officials believe that importers are masking the country of origin by re-labeling and re-routing goods through third countries in order to bypass the quotas on imports of Chinese clothing and textiles. The recent 93% increase in clothing imports from Zimbabwe can only be explained by transshipment, say trade experts. SARS has vowed to intensify their crackdown this month by targeting South Africa's borders with Lesotho, Botswana and Namibia and placing unlawfully imported goods under forfeiture. (Tralac Newsletter, December 10, 2008)

Tourism Slumping

¶5. (U) The total number of overseas tourist arrivals declined 12.9% between September 2007 and September 2008. The greatest declines are in Asian and European markets, but growth has also declined in the UK and US markets. A comparison of figures from the major overseas markets for September 2007 and September 2008 shows that there were significant decreases in the number of travelers arriving from UK (down from 35,915 to 29,976); the US (down from 23,405 to 21,590) and Germany (down from 21,796 to 17,377). (Travel Hub, December 3, 2008 and Statistics South Africa, November 27, 2008)

SAA Safety Gets Thumbs Up From FAA

¶6. (U) The U.S. Federal Aviation Administration (FAA) has extended its accreditation of South African Airways Technical (SAAT) through July 2009. SAAT's accreditation with the FAA was extended after FAA inspectors performed a follow-up audit of SAAT's facilities in

November. "The outcome of the FAA's findings and the subsequent renewal of our accreditation with this top regulatory organization are of incredible significance for passengers, who can rest assured that safety at SAAT remains a priority," stated SAAT CEO Clive Else.

The FAA undertook its annual inspection of SAAT's facilities in April 2008. Inspectors identified areas requiring corrective action. SAAT "immediately worked towards addressing and correcting the audit issues and completed this within three months of the initial inspection," said Else. One of the issues raised in the FAA's initial inspection report was concern over the loss of skills at SAAT. Else remarked that aircraft technicians were in short supply globally, but emphasized that SAAT has since retained more than 260 aircraft technicians and is still recruiting. Aircraft maintenance conducted by SAAT, the largest of its kind in Southern Africa, is governed by several international aviation regulatory bodies, including the FAA, the European Aviation Safety Agency and the South African Civil Aviation Authority. (News24, December 4, 2008)

Eskom Terminates Nuclear 1 Procurement Process,
QESkom Terminates Nuclear 1 Procurement Process,
but South Africa Still Committed to Nuclear

¶17. (U) State power utility Eskom has terminated the procurement process for the proposed Nuclear 1 project after its board decided it could not make an investment decision to proceed due to financial pressures. Department of Public Enterprises Director General Portia Molefe stressed that the country remained committed to its nuclear power program despite the decision. She commented that South Africa must "deal with" its carbon footprint and diversify its energy mix. Molefe asserted that there was sufficient capacity coming on line to close the power supply gap, especially in an environment of slowing demand. She was also convinced that the market dynamic would change so that when the government and Eskom were ready to reengage with the nuclear vendors, it would be more of a "buyers market." The proposed Nuclear 1 project would have resulted in the construction of the country's second pressurized water reactor nuclear power plant, after the station at Koeberg near Cape Town. Westinghouse and Areva of France were the designated bidders for the project.

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Eskom is grappling with a huge financing challenge. Ratings agency Standard & Poors recently said South Africa's National Treasury needed to extend "unconditional, timely guarantees" across all of Eskom's debt stock if it hoped to sustain the utility's current BBB+ investment-grade credit rating. The Treasury has not yet announced its position on the matter. (Engineering News, the Weekender, Business Report, Business Day, December 6, 2008)

PetroSA Appoints KBR as Engineering Contractor for Proposed Coega Refinery

¶18. (U) State-owned petroleum company PetroSA has appointed US firm KBR as the engineering contractor for Project Mthombo, the proposed \$11 billion, 400,000 barrel-per-day (bpd) Coega crude oil refinery. PetroSA CEO Sipho Mkhize stated that KBR had been contracted to provide feasibility and front-end engineering and design study services. The contract is estimated to be worth about \$100 million.

KBR expressed its commitment to Black Economic Empowerment principles. KBR expects to complete the feasibility study by September 2009, and plans to start construction in 2011. Mkhize stated that the rationale for building the refinery was that national demand for refined fuels already exceeded South Africa's refining capacity. Critics question the government's decision to prioritize this investment, noting that it may be based on now out-of-date growth and demand projections. (Engineering News, Business Day, December 10, 2008)

SADC Launches New Science and Technology Desk

¶19. (U) South African Development Community (SADC) Science and

Technology Chairman Mosibudi Mangena announced the creation of a unit that will coordinate the SADC region's science and technology activities. The unit would apply science, technology, and innovation to poverty eradication efforts and ensure that the SADC region contributes to and benefits from the global pool of scientific knowledge and technological advances. The South Africa Department of Science and Technology Chief Director for Multilateral Cooperation and Africa Lindiwe Lusenga explained that the unit would be based at the SADC secretariat in Botswana. South Africa has already commissioned an official to serve at the unit for a period of three years. Lusenga commented that "The vision of the SADC Ministers was to see the desk grow into a fully-fledged unit of science and technology, recognizing the challenges faced by the region on capacity building, and coordinating efforts to share infrastructural resources and experiences for research and development." Mangena added that the unit would coordinate the region's science and technology activities and also promote its agenda. He also encouraged the member states to help increase the capacity of the unit. [Note: Mangena is also the South African Minister of Science and Technology.] (Engineering News, November 5-11, 2008)